

STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

Central Illinois Light Company)	
)	Docket No. 00-0579
Proposal to Eliminate its Electric Fuel)	
Adjustment Clause and Include Fuel and)	
Power Supply Charges in Base Rates.)	
(Tariff pages filed July 31, 2000))	

THE CITIZENS UTILITY BOARD'S
MOTION TO FILE ERRATA TO
GEORGE STERZINGER'S REBUTTAL TESTIMONY

The Citizens Utility Board ("CUB"), pursuant to 83 Ill. Adm. Code 200.190, submit their Motion to File Errata to George Sterzinger's Testimony filed on behalf of CUB on November 13, 2000. In support of this motion CUB states as follows:

1. CUB Electronically filed Exhibit 2.0, Rebuttal Testimony of George Sterzinger on their behalf on December 5, 2000 with the Illinois Commerce Commission's eDocket.
2. In the second paragraph on page two starting at line 12, the following text, "Under the Customers Choice and rate Relief Act of 1997, the company is required to freeze rates and is only allowed to request a rate increase under very Specific conditions," was inadvertently left out from the filed version. A Copy of the corrected version is attached to this motion.

WHEREFORE, CUB respectfully prays that the Commission grant our Motion to File
Errata to George Sterzinger's Rebuttal Testimony.

November 20, 2000

Respectfully submitted,

CITIZENS UTILITY BOARD

BY: _____
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NOTICE OF FILING

TO: (see attached service list)

Please take notice that on December 6, 2000, the Citizens Utility Board caused to be filed a Motion to File Errata to George Sterzinger's Rebuttal Testimony filed on behalf of CUB in the above captioned docket with the Illinois Commerce Commission's eDocket. A copy of the corrected version of George Sterzinger's Rebuttal Testimony labeled CUB Exhibit 2.0R is attached to the motion.

Dated: December 6, 2000

Karin M. Norington

CERTIFICATE OF SERVICE

I, Karin M. Norington, certify that the foregoing documents, together with a notice of filing, were sent to all parties of record listed on the attached service list by United States Parcel Service – overnight delivery for receipt on December 6, 2000, hand-delivery, United States mail proper postage prepaid, electronic mail or facsimile on December 6, 2000.

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REBUTTAL TESTIMONY OF

GEORGE STERZINGER

ON BEHALF OF THE

CITIZENS UTILITY BOARD

DATED December 5, 2000.

CUB Exhibit 2.0R

1 Q. ARE YOU THE SAME GEORGE STERZINGER WHO TESTIFIED
2 PREVIOUSLY IN THIS PROCEEDING?

3 A. Yes, I am.
4

5 Q. WHAT IS THE SUBJECT OF YOUR REBUTTAL TESTIMONY?

6 A. My testimony responds to the rebuttal testimony of CILCO witness Robert
7 Ferlmann and the direct testimony of ICC staff witness Bruce Larson.
8

9 Q. WITH RESPECT TO MR. FERLMANN'S TESTIMONY, WHAT SPECIFIC
10 ISSUES WILL YOUR TESTIMONY REBUT?

11 A. I will respond to CILCO's inappropriate use of a five-year period to calculate the
12 cost of the CIPS purchased power contract. Additionally, I will address Mr.
13 Ferlmann's claims that CILCO has shown that the Cinergy prices used for an
14 estimate of purchased power costs are the "lowest cost available."
15

16 Q. MR. FERLMANN STATES THAT CILCO USES A FIVE-YEAR PERIOD TO
17 CALCULATE POWER COSTS "BECAUSE CILCO CANNOT REQUEST THE
18 REINSTATEMENT OF THE FAC FOR FIVE YEARS." DO YOU ACCEPT
19 THE RATIONALE OFFERED BY MR. FERLMANN FOR USING FIVE
20 YEARS TO ESTIMATE THE CIPS CONTRACT PRICE?

21 A. No, I do not. Mr. Ferlmann offers no reasonable justification for the use of the
22 five-year period. As I stated in my direct testimony, it is my understanding of

1 Section 9-220(d) of the Illinois Public Utilities Act that the power costs rolled
2 from a FAC into base rates must reflect either historical or projected estimates
3 and in either case the period used to estimate power costs cannot exceed 15
4 months. According to Mr. Ferlmann, however, CILCO is using a five-year period
5 to calculate its purchased power costs because it cannot request reinstatement of
6 the FAC for five years. It is my understanding that this manner of calculation is
7 inconsistent with both the Illinois statute and the Commission's finding in ICC
8 Docket No. 98-0819.

9 Mr. Ferlmann argues that the five-year period is necessary because the
10 new base rates cannot be changed for five years and therefore should reflect the
11 known change in power costs, which will result from the termination of the CIPS
12 contract in 2003. Under the Customers Choice and rate Relief Act of 1997, the
13 company is required to freeze rates and is only allowed to request a rate increase
14 under very Specific conditions. What Mr. Ferlmann ignores is that the statute
15 obviously does not prevent CILCO from requesting a change in base rates during
16 the five-year period. The change in base rates could be made to reflect changes in
17 purchased power costs but only if CILCO could show that changed power costs,
18 considered in conjunction with all other costs and revenues, make such a change
19 fair and reasonable. CILCO's request in this case amounts to filing base rates
20 based on a single change in future costs over a five-year period. As such,
21 CILCO's proposal amounts to setting base rates based solely upon a single

1 estimate of only one of the many costs from which base rates are comprised. This
2 proposal should be rejected.

3 My direct testimony further demonstrates that even if the Commission
4 allows for the costs of replacing the CIPS contract in three years, CILCO has
5 provided no evidence to support the notion that Cinergy futures prices are the
6 lowest cost of all the alternatives available to meet those requirements.

7
8 Q. MR. FERLMANN'S TESTIMONY FURTHER STATES: "MR. STERZINGER
9 IS INCORRECT IN SUGGESTING THAT CILCO HAS NOT SHOWN THAT
10 THE CINERGY FUTURES PRICES ARE THE LOWEST COST
11 AVAILABLE." HOW DO YOU RECONCILE THAT WITH YOUR
12 STATEMENT ABOVE?

13 A. In my opinion, CILCO has not provided any reasonable evidence to show that the
14 Cinergy future prices they use are reasonable, least cost estimates of power costs.
15 These estimates should not be factored into base rates. CILCO uses Cinergy
16 future prices for two purposes in this case: 1) to estimate a five-year price for the
17 CIPS power block and; 2) to estimate the costs of incremental purchases needed
18 to meet load in excess of that served by the combined company-owned and CIPS
19 resources.

20 As part of the discovery conducted in this case, CUB requested from
21 CILCO evidence showing that the resources used for the five-year projected
22 period were the lowest cost resources. Exhibit 1.5 to my direct testimony

1 illustrates CILCO's responses and demonstrates that CILCO made no effort to
2 determine the lowest cost blend of resources. Dispatching a set of resources is not
3 the same as determining from among all available resources the blend that will
4 provide power at the lowest cost. CUB requested that CILCO provide
5 information about the company's reliance upon Cinergy prices, specifically that
6 CILCO provide all materials relied upon to reach the conclusion that: "Cinergy
7 forward prices have been a good indication of the price at which suppliers are
8 willing to sell energy within MAIN on a forward basis." CILCO's somewhat
9 convoluted responses ultimately state: "The day that was chosen (to set the
10 Cinergy forward price curve) was reflective of the schedule for the FAC filing
11 and not responsive of any other consideration. This date was the last day that
12 would allow us time to gather the data in order to file on July 31, 2000." (CILCO
13 Response to CUB Data Request 1.16.A. Emphasis added.) While it is unclear
14 what CILCO is attempting to convey in this response, it nonetheless does not
15 appear to be an adequate justification of the use of Cinergy prices to either
16 estimate purchased power cost in the MAIN area or to establish that these are the
17 lowest cost resources available.

18
19 Q. WITH RESPECT TO ICC STAFF WITNESS BRUCE LARSON, WHAT
20 SPECIFIC ISSUES DOES YOUR TESTIMONY ADDRESS?

21 A. I generally agree with the majority of Mr. Larson's recommendations, particularly
22 his assessment that CILCO's method of allocating power costs "shifts the risk of

1 higher fuel costs from itself, where it should be, to other captive customers”
2 especially residential customers. My primary concern with respect to Mr.
3 Larson’s testimony is that I disagree with him as to the proper formula CILCO
4 should use to calculate the fuel costs associated with its commercial sales (non-
5 jurisdictional sales). Mr. Larson relies upon 83 Ill. Adm. Code Part 425.30 “Fuel
6 Adjustment Formula” as the proper formula/methodology for backing out fuel
7 costs for CILCO’s non-jurisdictional sales. In this case, CILCO is attempting to
8 eliminate the fuel adjustment clause and set base rates. The fuel adjustment
9 formula Mr. Larson cites is, in my opinion, insufficient for use in setting base
10 rates because it ignores the generating assets (plants) being used to serve the two
11 different types of customers (residential versus commercial).

12 While I am in complete agreement with Mr. Larson’s conclusion that the
13 CILCO proposal to use low cost company resources should be rejected, the
14 assignment of the average cost as calculated in the FAC formula overlooks
15 important factors that are appropriate to review when base rates are set.

16

17 Q. ACCORDING TO CILCO, WHAT TYPE OF SALES MAKES UP THE
18 CATEGORY OF “SALES NOT SUBJECT TO FAC”?

19 A. CILCO, in response to CUB Data Request 2.3 defines these sales as “non-
20 jurisdictional sales” inside and outside CILCO’s service territory. CILCO states
21 that the sales are not subject to Commission approval. CILCO further states that:
22 “The revenues from such sales include revenues under competitive contracts,

1 which are not subject to Commission jurisdiction pursuant to the provisions of the
2 Customer Choice Law, and represent highly confidential information. The
3 revenues from such sales do not affect the calculation of FAC costs, and are not
4 relevant to this proceeding.” (CILCO Response to CUB Data Request 2.3.c) In
5 other words, these sales are unregulated, competitive sales.
6

7 Q. HOW SHOULD POWER COSTS BE ASSIGNED BETWEEN TARIFFED
8 (E.G., RESIDENTIAL) AND UNREGULATED COMPETITIVE SALES IN
9 ORDER TO PROPERLY SET BASE RATES?

10 A. The lowest cost resources should be used to meet the tariffed (residential) load.
11 Only after the tariffed load is served should resources be considered available to
12 meet competitive sales requirements.

13 Competitive sales, such as CILCO’s non-FAC sales, should be secondary
14 and have access to CILCO-owned resources only after the tariffed load is served.
15

16 Q. WHY SHOULDN’T THE NON-FAC SALES HAVE ACCESS TO POWER AT
17 THE AVERAGE CILCO COST OF POWER?

18 A. These sales are unregulated and competitive. CILCO should enter into the sales if
19 they can obtain access to resources that can provide service to the customers and
20 provide a profit to CILCO. The key to making these sales legitimately
21 competitive is to assure that CILCO assumes the risks associated with the sales.
22 If CILCO can use an average cost of power to serve these sales, CILCO is

1 essentially being allocated a share of the very low cost generation resources for
2 each new unregulated contract they enter into. Of course, since the low cost
3 generation is limited, it means that there will be less of this generation available to
4 meet tariffed load. Currently, this average cost of CILCO power is low and very
5 likely below a market cost of power. It is certainly below CILCO's estimate of
6 market power costs used in their calculation of power costs in this proceeding.
7 As long as this is the case, CILCO will make sales at a price equal to or below the
8 cost of purchased power needed to serve the load but still profit from the sales
9 because power costs can be passed on to tariffed customers. For example, CILCO
10 could enter into a competitive contract to provide service at 2.5 cents per kWh,
11 then actually buy power at 4 cents a kWh to serve its load and still show a profit
12 on the sale. The reason for this is they would theoretically allocate to the
13 unregulated sales an average cost of power of 1.7 cents per kWh and thus realize
14 on their books a profit of 0.8 cents a kWh sold. The high cost power needed to
15 serve the competitive load would be passed on to tariffed customers. This would
16 provide CILCO a strong incentive to enter into these sales. It would also assure
17 that over time, as base rates are adjusted, the average cost of power to tariffed
18 customers would be driven higher than it would have been without these sales.
19 CILCO will recognize unregulated profits from competitive sales but it will be
20 because they are able to pass the real cost of the power to meet these sale onto
21 tariffed customers. This is not fair to tariffed customers. It is also harmful to the
22 development of competitive alternatives to CILCO. For this reason, the

1 Commission should only allow incremental generation to be used by CILCO to
2 meet the load of competitive sales.

3

4 Q. DOES THIS COMPLETE YOUR REBUTTAL TESTIMONY?

5 A. Yes, it do

